

OVERVIEW

This Report contains two chapters on observations of Audit on State's Finance and Appropriation Accounts for the year 2007-08 and three chapters containing four reviews and 27 paragraphs (including general paragraph) based on Audit on certain selected programmes, activities and transactions of the Government.

The audit has been conducted in accordance with the Auditing Standards prescribed for the Indian Audit and Accounts Department. Audit samples were drawn based on statistical sampling methods as well as on judgement basis. The specific audit methodology adopted for audit of programmes and schemes has been mentioned in the reviews. The audit conclusions have been drawn and the recommendations made taking into consideration the views of the Government, wherever received.

A summary of financial position of the State Government and the audit findings is given below:

1. Financial position of the State Government

The fiscal position of the State viewed in terms of the key fiscal parameters – revenue, fiscal and primary deficit – indicated significant improvement in 2007-08 relative to the previous year. The State has achieved the revenue and fiscal deficits targets relative to GSDP laid down in the State FRBM Act one year ahead (2006-07), with the current year ending in revenue surplus of Rs.2,151 crore and fiscal deficit at Rs.4,770 crore which stood at 1.70 *per cent* of GSDP. The ratio of Public Debt to GSDP at 28.32 *per cent* during current year remained within the limit of 30 *per cent* prescribed under the Act. The guarantees given were also well within the limit prescribed in the Gujarat State Guarantees Act, 1963. The improvement in fiscal position of the State was observed to be mainly on account of increase in State's own tax revenue which contributed about 73 *per cent* of the incremental revenue receipts during the year. The expenditure pattern of the State however reveals that the revenue expenditure as a *percentage* to total expenditure still constitutes around 82 *per cent* of the total expenditure during 2007-08 and its NPPE component at Rs 25081 crore during 2007-08 exceeded both the normative projection of the TFC for the State (Rs 21058 crore) as well as the projections made by the State Government in its MTFPS for the year. Moreover, within the non plan revenue expenditure, four components – salary expenditure, pension liabilities, interest payments and subsidies – constitute about 64 *per cent* of NPPE during 2007-08. The increasing fiscal liabilities accompanied with negligible rate of return on government investments and inadequate interest cost recovery on loans and advances might lead to a situation of unsustainable debt situation in medium to long run unless a suitable measures are initiated to compress the non plan revenue expenditure and to mobilize the additional resources both through the tax and non tax

sources in ensuing years. Besides, the inordinate delays in completion of incomplete projects particularly irrigation projects in the state resulted in huge cost and time overruns as is also a cause of concern for the State Government as revealed by the Report even on the basis of the fractured information made available by the respective departments of the State government.

2. Allocative Priorities and Appropriation

Against total budget provisions of Rs.46,426.43 crore, actual expenditure was Rs.43,456.02 crore. Overall saving of Rs.2,970.41 crore was the net result of excesses of Rs.1,055.38 crore in 43 cases of grants and appropriations and savings of Rs.4,025.79 crore in 128 cases of grants and appropriations. The excess expenditure of Rs.1,055.38 crore requires regularization by the State Legislature under Article 205 of the Constitution of India. In 21 cases, supplementary provisions of Rs.37.35 crore proved unnecessary and in 31 cases supplementary provisions proved excess resulting in aggregate saving of Rs.334.43 crore. In 30 cases, supplementary provisions proved insufficient, leaving uncovered excess expenditure of Rs.982.34 crore. In 119 cases, Rs.4,085.60 crore was surrendered in March 2008, indicating inadequate financial control over expenditure.

3. Sujalam Suphalam Yojana

Government launched Sujalam Suphalam Yojana for water resources management, watershed development, creation of irrigation infrastructure and drinking water supply. Government did not obtain Central finance of Rs.4,317.61 crore as anticipated. The projects commenced in September 2004 and targeted to complete by December 2005 were not completed. The Spreading Canal targeted to complete by December 2005 at cost of Rs.458.50 crore has not been completed despite expenditure of Rs.911 crore. There were cases of non-achievement of physical targets, delay in execution of works. As against target of 32 drinking water supply schemes for providing water to 4,904 villages and 34 towns, only six schemes were completed and only 2,524 villages and 19 towns were covered till March 2008. A review of these projects disclosed that the progress of these projects was hampered mainly due to large number of contracts awarded to individual contractors, delay in land acquisition and in obtaining permission from Forest, Railway and Road authorities. In many cases, estimates were unrealistic resulting in contractors enjoying huge unintended and undue benefits.

4. Tribal Development Programme under Gujarat Pattern

To involve local tribals in the process of formulation, planning and execution of works according to their local needs and conditions, a scheme of Gujarat Pattern was introduced in September 1999 by setting aside approximately Rs.200 crore every year from the grant of Tribal Area Sub-plan. Review of the implementation of the scheme revealed that grants amounting to Rs.1.51 crore lapsed due to delayed submission of bills. Construction of Sainik School at village Kherancha could not be taken up due to delay in Administrative Approval; non-allotment of land resulted in non-establishment of two Eklavya

Model Schools. Out of sanction for 46 lift irrigation schemes (Rs.7.29 crore), only 13 (Rs.1.95 crore) were functional. Expenditure outside ST area was incurred. Claim of Rs.9.05 lakh accepted was fraudulent. Monitoring Committees did not meet as scheduled.

5. IT Audit of Employment Exchange Management System

Lack of various controls in the system has made the information derived from the system unreliable. Incomplete roll out of modules for implementation led to incomplete databases and underperformance of the application itself. The databases were also incomplete as all the relevant data was not entered, specifically in cases of bookings notifications by the prospective employers and data in placement module. Further, lack of data integrity, reliability and incompleteness of data available with the Employment Exchanges led to inconsistent information being generated by EEMS.

6. Internal Control Mechanism in Transport Department

Internal Control is an integral component of an organisation's management processes established in order to provide reasonable assurance that the organization's operations are carried out effectively, economically and efficiently, financial reports and operational data are reliable, and the applicable laws and regulations are complied with so as to achieve organisational objectives. Evaluation of Internal control mechanism in the Transport Department revealed deficiencies in financial, administrative, operational and monitoring controls. Internal audit arrangements were also deficient and unable to provide assurance against financial irregularities. Cash Books and Receipt Books were not properly maintained. Incorrect financial information was furnished to Government. Deficiencies were noticed as regards execution of security bonds by employees dealing with valuables. Smart Card Based Driving Licence project could not be optimally utilised for want of installation suitable software/creation of Infrastructure. Vehicles brought in to Gujarat were not assigned registration marks even after lapse of 12 months. Non-initiation of departmental action resulted in huge accumulation of cases besides offenders remaining un-penalized for long periods. Fitness certificates of vehicle were not issued even after expiry date. Departmental inspections were not carried out as prescribed.

7. Audit of Transactions

Besides the above, audit of financial transactions, test checked in various Departments of the Government and their field offices revealed instances of fraudulent payment, losses, infructuous, wasteful expenditure, unfruitful expenditure, blockage of fund and other irregularities involving Rs.104.13 crore as mentioned below:

Infructuous and wasteful expenditure of Rs.38.52 crore were noticed in Narmda, Water Resources, Water Supply and Kalpsar Department (Rs.30.17 crore), Panchayats, Rural Housing and Rural Development

Department (Rs.2.64 crore), Ports and Transport Department (Rs.2.37 crore), Home Department (Rs.1.84 crore) Energy and Petrochemicals Department (Rs.0.81 crore) and Education Department (Rs.0.69 crore). This included a case of wasteful expenditure of Rs.29.15 crore on construction of head-works of Utavali-Gunda Water Resources Project (lift irrigation scheme) with overlapping command area of Narmada Project.

Cases of violation of contractual obligation / undue favour to contractors involving Rs.35.92 crore were noticed in Narmada, Water Resources, Water Supply and Kalpsar Department. This included a case of unauthorised financial aid to the contractor by releasing excess amount of Rs.28.41 crore ignoring contractual obligation.

Avoidable / excess / unfruitful expenditure of Rs.18.18 crore were noticed in Narmada, Water Resources, Water Supply and Kalpsar Department (Rs.12.88 crore), Roads and Buildings Department (Rs.4.76 crore) and Energy and Petrochemicals Department (Rs.0.54 crore). This included a case of unfruitful expenditure of Rs.3.52 crore on execution of wearing course of 25 mm thick Open Graded Carpet as in-between layer.

Apart from this, there were regulatory issues aggregating Rs.11.51 crore in Narmada, Water Resources, Water Supply and Kalpsar (Rs.0.69 crore), Urban Development and Urban Housing (Rs.5.20 crore), Roads and Buildings Departments (Rs.4.51 crore) and Panchayats, Rural Housing and Rural Development Department (Rs.1.11 crore).